



OFFICE OF
INSURANCE COMMISSIONER

TECHNICAL ASSISTANCE ADVISORY (TAA)
T 04-06

TO: Domestic Life Insurers, Property/Casualty Insurers, and Health Carriers

SUBJECT: Supplemental Compensation Exhibit

DATE: November 29, 2004

This TAA provides guidance for preparing the Supplemental Compensation Exhibits (SCE's) by defining reportable items and how those items should be classified.

BACKGROUND

NAIC Annual Statement Instructions require preparation and filing of an SCE and RCW 48.43.045(2) requires the filing of the same compensation information, though in a different format.

The Office of the Insurance Commissioner (OIC) has noted significant disparities among filed SCE's. Those disparities reduce the comparability of SCE's which, if comparable, can be valuable tools for the O I C, reporting entities, and the public.

INTERPRETATION

Effective immediately, SCE's must be completed using these definitions and instructions, in addition to those found in the NAIC Annual Statement Instructions and RCW 48.43.045(2):

General

- Compensation must be calculated only for each reporting individual; one cannot pay for and be reimbursed for the expenses of others.
- Report all compensation paid or accrued to or **on behalf of** the reporting individual, including when sent directly to a third party.

Salary – includes base pay or allowance and any additional amounts which are not specifically identified as **reimbursements** for specific **business** expenses which are accountable to the Company including but not limited to:

S1) Deferred compensation, 401(k) contributions and similar arrangements.

S2) Sick or vacation pay buy-outs, back pay adjustments, payment of taxes on behalf of reportable individuals or severance pay.

S3) Payment of insurance premiums and payments for life insurance-type arrangements on behalf of reportable individuals, insofar as the premiums are reportable for federal income tax purposes.

S4) All other payments or accruals made to or on behalf of a reportable individual which are not more appropriately covered in one of the other columns of the form should also be shown in the Salary category.

S5) Refer to the example section for specifics on additional amounts not accounted-for to the company.

Bonus – encompasses all amounts which are in addition to a person's salary, but which represent an additional payment for job-related efforts or accomplishments. Such amounts include, but are not limited to, immediate or deferred:

B1) Awards for achieving general sales goals (exclude commissions for specific accounts which are to be reported in "all other compensation" A7).

B2) Payments for reaching pre-determined performance, achievement or production levels.

B3) Reimbursements or grants to an individual or group which are intended for use in paying the cost of personal expenses or trips and are defined as being in recognition of some achievement. For example, payment or reimbursement for an individual or family trip to a theme park or resort area to celebrate the completion of a computer system upgrade.

B4) Discretionary awards which do not appear to be related to any pre-determined levels, but which are nevertheless designated as bonuses.

All Other Compensation – includes everything else.

Expense Reimbursements - are amounts for or in payment of legitimate business expenses which are incurred by or on behalf of a person in the performance of official duties and which are accounted-for to the Company. Amounts would include:

A1) Reimbursements to the person for submitted expense reporting forms.

A2) Payments to third parties for functions attended by the person or activities which are attributed to them.

A3) Payments for charges made on Company credit cards which are not included above in A1.

A4) Refer to the example section for specifics on amounts accounted-for to the company.

Other Payments – amounts will include all items paid to or on behalf of reportable individuals, which do not fit the definition of any other column in this form. This should include, but is not limited to:

A5) Sums contributed to non-qualified deferred compensation plans or in excess of the normal and comparable entitlements for other employees or directors.

A6) The cost or fair value of perquisites, such as country club memberships, vehicles, boats, aircraft, subscriptions to non-insurance/prepaid health care publications, payments for personal expenses, such as parking, which are not paid in conjunction with salary payments, household help, rent, the cost of spouse or family accompaniment on trips (other than "recognition" travel covered in B3 above), whether or not the expenses are treated as business expenses and financial counseling services.

A7) Commissions and similar compensation earned on a specific-account basis.

A8) Stock, "phantom" stock grants or similar equity participations, when and as they become vested.

A9) Payouts for entitlements or rights which the reportable individuals are relinquishing and which have not previously been reported on the form in prior years. Also include any compensation for opting out of insurance coverage.

A10) The amount of federally recognized income resulting from the purchase of life insurance special policies and any similar arrangements whereby the reportable individual acquires a benefit or right for less than market value.

A11) Outplacement fees or severance pay.

A12) Fees paid for any activity or service, such as consulting arrangements, which are not covered by the amounts reported in the Salary category.

Example:

Automobile availability is a condition of employment and there is an additional stipend of \$300 per month to pay for parking fees ***in that amount.***

- If the actual parking fees are not accounted-for to the company, record the entire stipend in the "Salary" category.
- If the fees are accounted to the company, the parking is a legitimate and accountable business expense which would be an Expense Reimbursement. However,
 - If the parking costs are accounted to the company but are less than the \$3,600 annual allowance, the excess of the \$3,600 over the actual parking cost is Salary. The actual parking fees would still be an Expense Reimbursement.
 - If the accountable actual cost exceeds the \$3,600 allowance, only the \$3,600 would go into the Expense Reimbursement. The excess would be unreimbursed business expense, generally reportable on the individual's tax return.

If automobile availability is not a condition of employment, any stipend paid for parking fees must be reported as salary.

The RCW 48.43.045(2) compensation annual report

The sum of the Wages, Expense Reimbursements and Other Payments reported in the RCW 48.43.045(2) report must be identical to the current year Supplemental Compensation Exhibit Annual Compensation Totals column.

Report as Wages the sum of the Salary and Bonus categories discussed above.

Questions concerning this TAA should be directed to Chase Davis, Financial Analysis Section, Company Supervision Division, at (360) 725-7204 or ChaseD@oic.wa.gov.